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1955

U.S. Attitude Toward Exports to the  
European Soviet Bloc of Non-Strategic Commodities

The following revised pages to Staff Study No. 9, "U.S. Attitude Toward Exports to the European Soviet Bloc of Non-Strategic Commodities", are attached. These pages replace those presently in Staff Study No. 9, Draft of June 3, 1955.

Attached: Revised

Table of Contents  
Pages 1 through 7  
Pages 11, 13, 15, 22, 26, 28, and 29  
Summary and Conclusions - 2 pages

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U.S. Attitude Toward Exports to the  
European Soviet Bloc of Non-Strategic Commodities

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Irving I. Kramer  
Executive Secretary

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U.S. Attitude Toward Exports to the  
European Soviet Bloc of Non-Strategic Commodities

Table of Contents

Summary and Conclusions

Introduction: Basic Assumption

I. Present U.S. Attitude Toward Non-Strategic Exports

A. Exports from the U.S.

1. Current Executive Policy Directive
2. Department of Commerce Licensing Policy and Procedures
3. Special Provisions Relating to Agricultural Products

B. By Other Free World Countries

1. Qualified Acquiescence
2. Policy of Avoidance of Undue Reliance and its Application

II. Evaluation of Effects of U.S. Policy

A. Level of Trade

B. International Trade Control Program (COCOM)

C. Posture in International Organizations

D. Participation in Trade Fairs Behind the Iron Curtain

III. Alternative Courses of Action

A. Active Promotion

B. Further Stiffening of U.S. Attitude

C. Less Qualified Acquiescence

CONFIDENTIAL

CONFIDENTIAL

U.S. Governmental Attitude Toward Exports to the  
European Soviet Bloc of Non-Strategic Commodities

Introduction: Basic Assumption

Strategic goods for the European Soviet bloc are defined to include the commodities on the U.S. Master Export Security List, comprising atomic energy items (Part A), munitions items (Part B), and the other items specified under Parts C-I, II, III and IV. All other commodities, including almost all agricultural products, are considered to be "non-strategic" for the purposes of this paper. To assume otherwise would require a departure from the existing U.S. criteria of strategic significance.

I. Present U.S. Attitude Toward Non-Strategic Exports

A. Exports from the U.S.<sup>1/</sup>

The principal specific method of implementation of the economic defense program has been to deny the bloc goods directly related to its war potential. This policy has been carried out by prohibiting the export of all goods having any strategic significance whatever. The export of clearly non-strategic items is and has been permitted, although under close scrutiny, on a case by case basis. This surveillance is made possible by the requirement for a validated export license before shipment of any commodity. Control of quantity or the modification or denial of a proposed export can thereby be accomplished, in keeping with whatever special circumstances may surround a particular transaction.

Up to

<sup>1/</sup> The U.S. applies a broad range of economic sanctions against Communist China and North Korea, for a combination of security, political, and moral reasons. Thus, the U.S. embargoes all exports, whether strategic or non-strategic, prohibits all imports, and generally forbids any economic intercourse with those regimes by persons, or through transactions, subject to its jurisdiction. Throughout this paper, unless otherwise specified, the term "Soviet bloc" excludes Communist China and North Korea.

CONFIDENTIAL

CONFIDENTIAL

-2-

Up to now the U.S. Government has been refraining from actively promoting trade of any sort with the Soviet bloc, and the withholding of Government promotion has quite possibly been a contributing factor to the low level of the trade discussed below.

1. Current Executive Policy Directive

The current executive policy directive contains several provisions of particular pertinence to this discussion, which run along the following lines:

a. During the current prolonged period of tension between the free world and the Soviet bloc, U.S. courses of action should be based upon the assumption that the maintenance of some personal and commercial contacts between the free world and the bloc may have positive advantages, particularly as far as the Soviet satellite states are concerned.

b. While there is a continuing necessity for U.S. controls over exports to the Soviet bloc, a gradual and moderate relaxation in a practice amounting to virtual embargo of exports would be appropriate, provided that, in the pace and timing of such relaxation, due consideration is given to the effects on the total economic defense effort.

c. One of the general objectives of the economic defense program is to decrease the political and economic unity of the Soviet bloc through skillful flexibility in applying controls.

2. Department of Commerce Licensing Policy and Procedures

Under b. above there has been agreement on a Department of Commerce licensing policy which makes possible a freer licensing of non-strategic exports from the U.S.

U.S. export

CONFIDENTIAL

CONFIDENTIAL

-3-

U.S. export controls toward the Soviet bloc were revamped on August 26, 1954, in a manner which brought them much closer than previously to the international controls. All shipments to the bloc still require individually validated export licenses; and the general policy is to deny or limit those commodities which appear on the three international lists plus a few items respecting which unilateral U.S. controls can be effective or which, by their nature, might raise difficult domestic political problems if shipped to the bloc. For all other commodities there is supposed to be a general presumption of approval.

Under existing procedures of inter-departmental consultation and review, the Department of Commerce notifies the EDAC agencies of significant export license applications received in the Bureau of Foreign Commerce. In addition, BFC, of its own accord, raises for inter-departmental discussion in the Advisory Committee on Export Policy (ACEP) any application which contemplates an export to the Soviet bloc that would significantly affect the trend of U.S. exports to the bloc either in general or in terms of the particular commodity, or that might have any significant impact on the supply situation for that item within the Soviet bloc.

3. Special Provisions Relating to Agricultural Products

During the past eighteen months, export license applications were received covering large shipments to the bloc of butter and cottonseed oil, which would have come from U.S. Government-owned surplus stocks. The applications were denied, principally on the grounds that the U.S. should not sell

CONFIDENTIAL

CONFIDENTIAL

-4-

not sell these commodities at a loss to unfriendly countries, and that adverse public reaction would follow the sale of butter to the USSR at a price below that paid by American housewives.

At the present time the conditions governing the export of agricultural products from the U.S. to the Soviet bloc are as follows:

Exchanges of government-owned agricultural surpluses for strategic materials with the bloc in barter deals are ruled out for the present by a Justice Department legal opinion of February 21, 1955. Sales for local currency under the Agricultural Trade and Development Act of 1954 (PL 480) cannot be made because of the provisions of that law.

Direct dollar sales of surpluses acquired from government-owned stocks by private traders, where the sales price is less than the government's investment, have been disapproved on policy, not legal, grounds. This policy was fixed in January 1954 when the Cabinet decided not to permit licensing of butter exports to the Soviet bloc on the grounds stated above: (1) that the U.S. should not sell this commodity at a loss, and (2) that adverse public reaction would follow the sale of butter to the USSR at a price below that paid by American housewives.

In February 1954 the Cabinet further decided "as a matter of policy to deny commercial export license applications for the export for cash of U.S. Government-owned surplus agricultural or vegetable fibre products to Russia or her satellites." At that time the Cabinet agreed that there would be no objection to bartering perishable agricultural surpluses to the bloc in exchange for strategic minerals. At the present time, however,

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CONFIDENTIAL

CONFIDENTIAL

-5-

barter exchanges appear to be precluded, in view of the Justice Department opinion of February 21, 1955.

This would leave only two theoretical possibilities for the export of agricultural products to the bloc. The first possibility is in the area of private transactions involving products acquired from commercial stocks. Such transactions have not been of interest to the bloc, as may be noted from the following facts. Total U.S. exports to the bloc in 1953 were valued at only \$2 million, three-quarters of which consisted of tobacco products and wool rags. In 1954 exports were valued at \$6 million. Over \$3 million of this comprised flood relief shipments of agricultural surpluses to East Germany, Hungary and Czechoslovakia, \$0.5 million was in tobacco products, another \$0.5 million in inedible tallow, and over \$1 million in wool rags.

The remaining possibility would be direct government-to-government sales for dollars. Such sales are legally permissible, but they have not been affirmatively declared to be desirable on policy grounds; and the NSC decided in April 1954 that, in the event of such transactions, there must be a clear advantage to the U.S. and no material injury to the trade of friendly countries.

B. By Other Free World Countries

The current executive policy directive provides that, in the current prolonged period of tension, the courses we take should be based upon the assumption that interference in the trade between the free world and the Soviet bloc should take place only where a clear advantage to the free world would accrue from

CONFIDENTIAL



CONFIDENTIAL

-6-

from such interferences, particularly since controls on trade still pose economic and political problems for many of our allies. At the same time the policy directive enjoins us to:

(1) Seek to demonstrate to other countries the risks of excessive reliance on the Soviet bloc as a trade partner.

(2) Encourage and facilitate the flow of trade within the free world, including the entry of commodities into the U.S. by reduction of trade barriers, particularly when the effect of such action would be to decrease the reliance of the free world on the Soviet bloc.

(3) Encourage and support, by all reasonable means, the development of alternative markets and sources of supply within the free world, so as to reduce dependence of free world countries on Soviet bloc markets and sources of supply.

(4) Seek to provide safeguards designed to minimize the immediate effects of a sudden reduction or cessation of trade initiated by the bloc.

(5) Administer current U.S. programs, such as economic development, military procurement, defense support, stockpiling and similar activities, in such a way as to take into account the impact on the economic defense program and, particularly, the objective of decreasing the free world's reliance on Soviet bloc trade.

1. Qualified Acquiescence

The foregoing adds up to a policy of acquiescence, often expressed in terms that the U.S. "does not object" to an increase in non-strategic trade as such with the bloc. This position diverges from that of many other countries, which believe that non-strategic East-West trade should be

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CONFIDENTIAL

CONFIDENTIAL

-7-

promoted to the maximum extent possible. This belief is reinforced by the continuously growing competitive pressures for markets. The U.S. position has been characterized as essentially negative and, as discussed below, affects U.S. participation in international bodies and in trade fairs behind the Iron Curtain.

As the current executive policy directive stresses, the U.S. does not seek a total embargo on East-West trade, for a variety of reasons, some political, some psychological, and some economic. As a result of this position, we sometimes feel bound not to object to a particular export or exports or a preference that they not take place. Two cases in point are Brazilian exports of iron ore to Poland some time ago and, more recently, proposed Spanish exports of pyrites to Eastern Germany. In both cases the foreign firms involved had been recipients of U.S. financial assistance, and neither of them had had an historical trade with the Soviet bloc. In both cases the commodities involved were classified as non-strategic under present criteria, or quasi-strategic at most. These cases, however, were unusual ones in which security considerations were secondary.

2. Policy of Avoidance of Undue Reliance and its Application

An important qualification in the U.S. policy of "acquiescence" or "non-objection" with respect to promoting non-strategic trade with the bloc stems from the concern that, in the case of certain countries or under certain circumstances, non-strategic trade can be manipulated by the bloc with results that would be unfavorable to our political and security objectives.

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CONFIDENTIAL

CONFIDENTIAL

-8-

There are, of course, real dangers in a heavy reliance on trade with the bloc, even though the trade is non-strategic in character. "Heavy reliance" may be construed as a volume, or composition or other characteristic of trade with the bloc which is viewed by the free world country concerned as affecting its economic well-being or political stability in a vital way. Conversely, the trade can be considered marginal if a free world country's willingness to maintain the trade or increase it is not such as to cause it to make disproportionate concessions in order to do so.

The dependence of various free world countries on trade with the bloc varies from country to country and from time to time. It cannot be measured precisely because it is affected by a host of factors, many of them non-quantitative in character. Nevertheless, some insight into the problem may be gained by examining the volume, composition, and trends of East-West trade in general and the trade between various free world countries and the bloc, together with the motivations found in free world countries which make them desirous of trading with the bloc. For the purposes of this brief discussion it will be sufficient to examine some of these motivations.

A number of important economic motivations can be identified. The distinction between economic and non-economic factors is not a precise one, however; and political and psychological considerations often play a more important role than economic factors. The economic motivations for trading with the bloc include the following:

- i. To receive essential materials from the bloc.
- ii. To alleviate or help avert balance-of-payment difficulties.
- iii. To improve

CONFIDENTIAL

CONFIDENTIAL

-9-

- iii. To improve the country's over-all terms of trade.
- iv. To help maintain a desired level of local economic activity.
- v. To establish and maintain a competitive position in what is believed to be a vast potential market in Eastern Europe (and China) for the expanding industrial capacity of the West.
- vi. To hedge against the possibility of an economic recession in the West.
- vii. To obtain payment for nationalized properties in Eastern Europe formerly belonging to western nationals.
- viii. To obtain payment against credits previously extended to Soviet bloc countries, including the swing credits which are generally provided for in East-West payments agreements.
- ix. To maintain and develop diversified sources of supply and markets so as to avoid undue dependence upon single sources or single markets.

The foregoing may be classified as economic motivations at the national or governmental level. These in turn spring from, or are reinforced by, pressures generated by individuals or localities whose economic motivations include:

- i. Disposing of specific export surpluses not readily saleable elsewhere.
- ii. Disposing of goods at higher prices than may be obtained in the competitive markets of the free world.
- iii. Maintaining existing, and often traditional, patterns of trade.

Naturally, many of the factors listed above translate themselves into political pressures of various sorts which supplement the following kinds of purely

CONFIDENTIAL

CONFIDENTIAL

-10-

of purely political and psychological motivations for trading with the bloc:

- i. The belief that the chance of war is increased by widening the gulf between the free world and the Soviet bloc, as reflected in a cessation or decrease in trade.
- ii. Traditional political orientations, such as the neutrality of Switzerland, or more recently adopted attitudes, such as the "neutralism" of India, Burma, and Indonesia.

Against the above background of attitudes, which are found in countries outside the western hemisphere in varying degrees at different times, we find the present situation in general to be approximately as follows: The dependence of free world countries collectively or individually on Soviet bloc sources of supply for basic commodities is no longer very important, in the sense that coal, grains, timber, petroleum, manganese and chrome are physically available in ample supply in the free world at prices equal to or lower than Soviet bloc prices. These commodities comprise the great bulk of the imports which the West traditionally has been accustomed to receiving from the bloc. However, other aspects of the problem remain for certain countries of the free world, primarily the balance-of-payments problem. With only a few exceptions, notably Finland, but including also Austria, Egypt, Iceland and possibly Iran and Afghanistan, there has been no heavy reliance on the Soviet bloc as a market or as a source of supply. However, this aspect of the dependence problem has rapidly assumed larger proportions in the past two years, as competition for markets has increased in the free world, particularly with the re-emergence of Japan and Western Germany as large-scale exporters of manufactured goods.

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CONFIDENTIAL

CONFIDENTIAL

-11-

It is true today--as it was two years ago when the economic defense policies of the U.S. embodied in the current executive policy directive were given expression--that, over the long run, the major results in achieving a position in which the free world countries will view their trade with the bloc as marginal, are apt to accrue from the progress that is made in solving some of the more basic economic problems of the free world. It should be recognized, however, that even if these basic problems were to be solved over-night, trade with the Soviet bloc would still go on simply because: businessmen in the non-Communist countries could make a profit from such trade; there is a desire in some countries to trade with the bloc for political reasons; and in most free world countries outside the western hemisphere there is no stigma connected with this trade. The solution of problems of economic dependence on the Soviet bloc is not unconnected with existing U.S. programs and policies in the economic field which, it should be noted, we would be pursuing even if the Communist menace did not exist. Some of these programs and policies aim at improving the dollar position of the free world, better conservation and increased production, lowering free world trade barriers, economic growth in the less-developed areas of the free world, and international commodity stabilization.

On a few occasions the U.S. Government has taken special measures to assist free countries in lessening the impact of Soviet bloc economic pressures or in reducing their dependence on trade with the bloc. Denmark and Finland have been the principal recipients of this assistance.

In the

CONFIDENTIAL

CONFIDENTIAL

-12-

In the spring of 1952 the U.S. covered the net dollar cost (about \$5 million) of a shortfall in Polish coal deliveries resulting from Denmark's refusal to undertake delivery of a large second-hand tanker. In the summer of 1954 the U.S. offered to furnish Denmark with grains and other essential supplies which the Danes had hoped to import from the USSR under a trade agreement then being negotiated. These Denmark-Soviet negotiations had broken down when the Danish Government resisted the Soviet demand for a commitment to construct a large tanker for the USSR.

Since 1952 the U.S. Government has been gravely concerned over the extent to which Finland had become dependent on trade with the bloc. In 1953, for instance, over 30 percent of Finland's total trade was with the bloc. Finland's internal economic structure is shaky from the long-term standpoint. And Finland's postwar relations with the USSR contain unusual features, such as the mutual assistance treaty concluded with the USSR in 1948 and the staggering reparations, amounting to almost \$600 million, which Finland was obliged to pay over an eight-year period ending in 1952.

Within the limits which the Finns themselves conceive as demarcated by their political relationships with the USSR, the U.S. has been able to render some assistance aimed at lessening the country's economic reliance on the bloc. Recently, the U.S. concluded an agreement for the sale of surplus agricultural commodities, cotton and tobacco, valued at about \$5 million, with payment to be made in Finnish currency. This transaction is additional to a \$5 million sale of U.S. cotton and tobacco to Finland in February 1954 and a sale this year of about \$2 million worth of U.S. coal,

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CONFIDENTIAL

CONFIDENTIAL

-13-

all for Finnish marks. The U.S. intends to utilize the major portion of the available local currency proceeds for the purchase of prefabricated buildings. This would provide a temporary cushion to the Finnish industry, which has suffered a sharp curtailment of its exports because of a large reduction in Soviet purchases.

A number of other modest measures have been considered in the U.S. Government for the purpose of reorienting Finland's trade more preponderantly westward, but few of these measures have been so specific as those described above. By and large, it is probably correct to say that a small measure of success has been achieved, particularly in terms of buttressing the Finnish Government's resolve to minimize its economic dependence on the bloc.

## II. Evaluation of Effects of U.S. Policy

### A. Effects on Level of Trade

It is generally agreed that U.S. export policies, while affecting the composition of East-West trade, have not had a major influence on the over-all level of that trade, and there are sound reasons to support this conclusion. The basic factors are (1) that the Soviet bloc has been unwilling to permit a higher level of trade, and (2) that, under existing policy, the Soviet bloc has been unable to export sufficient goods of attractive quality and price. For several decades Soviet foreign trade has been strictly maintained at very low levels, amounting to only a tiny fraction of the Soviet national product. Similarly, Soviet satellite states have drastically reoriented their historical trade with Western countries and have forced an abnormal expansion of intra-bloc trade. This low level of East-West trade is a result of Soviet

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CONFIDENTIAL



CONFIDENTIAL

-14-

of Soviet bloc policy, under which State trade monopolies operate only in accordance with overriding national plans for self-sufficiency and accelerated development of heavy industry. The Soviet bloc no longer wants to import many goods formerly imported, and no longer is able to export many goods formerly exported. This conclusion might be qualified by the observation that the bloc would like to maintain a higher level of trade (in the main, import more goods contributing to rapid industrialization) but at the same time the bloc is not willing to sacrifice long-range economic goals to achieve this end.

Other factors contributing to the restricted level of East-West trade relate to the reluctance of business interests in the free world to engage in trade with the Communist world. This reluctance derives in large measure from the difficulties of trading with a state monopoly, the lack of local representation, contract and arbitration rigidity, questionable spare parts and maintenance service, travel difficulties, uncertain future of market and sources of supply, etc. These factors are not measurable, but in total are probably less important than the two main factors mentioned in the preceding paragraph.

Finally, it is established that many firms and individuals, particularly those in the U.S., have stayed clear of East-West trade because of the stigma of such trade. In addition, some Europeans have feared jeopardizing their American business relationships. However, both Mr. Stassen and President Eisenhower have publicly stated that the U.S. was not opposed to an increase in the non-strategic trade of our allies with countries of Eastern Europe. In addition, the fact that many Europeans, including government leaders such as Winston Churchill, have encouraged this trade within strategic limits indicates there has been little restraint occasioned by U.S. policy.

For propaganda

CONFIDENTIAL

CONFIDENTIAL

-15-

For propaganda purposes the Soviet bloc has maintained that East-West trade has been held back by U.S.-inspired export controls. This theme, starting in the summer of 1951 with the preparations for the Moscow Economic Conference (April 1952) and continuing through the relaxation of Western export controls in August 1954, gained considerable acceptance in European trade circles. However, from the last half of 1954 to the present it has become increasingly clear that concrete trade results would not approach expectations. Currently, European traders are concerned over cancelation of some Soviet contracts, mainly for consumer goods. This development, while not yet of major significance, serves to illustrate that Soviet policy, not international trade controls or U.S. policy on non-strategic trade, is the real limitation to expansion of East West trade.

B. International Trade Control Program (COCOM)

In COCOM the U.S. Delegation has consistently taken the lead in seeking the maximum level of restriction of strategic trade. This position is inherent in the nature of COCOM, which in part came into being as a forum to reconcile differences between American and European thinking on trade controls. Before the reduction of the COCOM embargo list from 260 to 170 items in August 1954, many European business and government leaders openly differed with the U.S. as to what commodities should be considered strategic, and, to a degree, felt that the long-range goal of the U.S. was to control all trade, including non-strategic.

However, as a result of the reduction in the embargo lists, this feeling was considerably dissipated, despite the fact that the reduction was not as drastic as some other countries had hoped. Another outstanding factor in lessening the

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CONFIDENTIAL

CONFIDENTIAL

-16-

pressure on the U.S. position has been the failure of East-West trade to materialize to the degree expected. Members of COCOM are aware that the controls do not constitute the major obstacle to East-West trade. Against this background, it is considered that any disparity existing between U.S. and European thinking on non-strategic trade with Eastern Europe is not of major consequence in current COCOM operations. This conclusion is drawn in the context of the present international situation and is, of course, not addressed to the question of controls over trade with China.

C. Posture in International Organizations

Apart from COCOM, U.S. Delegations to other international organizations have reported that U.S. policy on East-West trade casts the U.S. in a negative role, and consequently impairs U.S. effectiveness in these organizations. The problem is not simply a question of rebutting frequent Soviet bloc attacks on Western trade controls; this defense is adequately handled by our allies. Rather, the U.S. has not been able to put forward or even support (except reluctantly) measures which promote East-West trade. At the last session of the Trade Development Committee, of the ECE, for instance, the U.S. Delegate reported<sup>1/</sup>:

"The United States is known to be out of sympathy with an important objective sought by the other countries, namely an expansion of East-West trade. Our attitude on this point colors our reaction so that we are generally in opposition to proposals for committee work and known to be so, however silent we are or however diplomatic our opposition may be. We run the risk, moreover, of seeming to be in opposition to proposals which in Western eyes have another important objective, namely the easing of East-West tension. As long as Eastern European positions were mainly propagandistic and plainly unreasonable there was little likelihood that the U.S. role in ECE trade work would be criticized. If, however, the Soviets persist in an attitude of cooperation while the U.S. continues to follow the line which it has recently we may find their activity being

compared

<sup>1/</sup> Embassy London Despatch 1287, Nov. 3, 1954, pp. 21-22 CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

-17-

compared with our inactivity, apparent Soviet positiveness with seeming U.S. negativism, their furtherance of trade expansion and easing of tension, with our apparent opposition to both. Such comparisons could be seriously discrediting to the U.S. in the ECE. In short the changing Soviet approach to its participation in the trade work of the ECE seems to require a reappraisal of the U.S. position. There should be a careful consideration of whether the policy which we adopted to meet other circumstances in the ECE continues to be the one best designed to obtain the maximum benefit for us not only in the ECE but in terms of our larger interests."

The U.S. Delegate also reported:

"The Soviet attitude emerging in 1953, very apparent in the April 1954 meeting of the Commission and continued in the Trade Development meeting just concluded, now seems confirmed as the strategy of the Soviet Union in the ECE. It is a strategy which if continued and especially if coupled with concrete trade results could result in comparisons being made, to our disadvantage, between the U.S. and Soviet roles in the Committee."

It is seen that the tenability of the U.S. position hinges partly on the degree of unreasonableness of the Soviet bloc position and partly on achievement of concrete trade results. At present these factors may be balanced. As reported above, the Soviet bloc has been in a position to benefit from a more reasonable approach to trade issues. On the other hand, the recently dampened prospects for growth of East-West trade tend to divert attention from the negative U.S. attitude on trade. This situation may, of course, be only temporary.

In ECOSOC the problem is not unlike that of ECE. The U.S. Delegation has reported<sup>2/</sup> that the U.S. position was often excessively negative. Here, however, a number of other economic issues are involved, so that any modification of the U.S. position on East-West trade would only partly ameliorate the over-all U.S. role in ECOSOC.

D. Participation

2/ CF. report by Senior Advisor USUN Desp. 211, Sept. 13, 1954, CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

-18-

D. Participation in Trade Fairs Behind the Iron Curtain

The United States Government has recently embarked upon a program of expanded U.S. participation (both Government and private) in international trade fairs, partly in order to counteract Soviet efforts in this field, as well as to promote wider understanding of the benefits, material and otherwise, which result from the American system. It has been apparent that U.S. participation in trade fairs behind the Iron Curtain might yield significant results in terms of propaganda and opportunities for contact with the captured peoples of Eastern Europe. It has been felt, however, that U.S. participation, either official or through the encouragement of private U.S. firms, would imply active promotion of non-strategic trade with the Soviet bloc. In order to evaluate this question properly, it is necessary to examine the various possible degrees of participation in a Soviet bloc trade fair.

Should U.S. participation be official, i.e., on a governmental basis, it would have to be on an elaborate and spectacular scale. The U.S. would be competing with the Communists on their home grounds, and the Communists are experienced in presenting propaganda spectacles. A U.S. exhibit would have to be commercial in character, as the experience of our attempt to participate in the Poznan Fair has demonstrated. However, participation on an official basis on the scale required would unquestionably represent a large scale attempt actively to promote East-West trade.

Participation by U. S. firms alone could be on a more modest basis since the prestige of the U.S. Government would not be involved to the same degree. Our present policy would not rule out participation by American firms in Iron Curtain trade fairs on their own initiative. It is clear, however, that few

American

CONFIDENTIAL

CONFIDENTIAL

-19-

American firms would desire to participate in such fairs in view of the lack of commercial justification and the possible stigma which might result from such participation.

It is possible that, through active government encouragement, some firms might agree to participation, but again this would imply promotion of East-West trade. Thus, the question comes down to one of balancing the propaganda benefits which might result from U.S. participation against the possible adverse effects on the economic defense program.

There may be some cases in which Government solicitation of private participation would not imply trade promotion, as, for example, the recent attempt to have the Good Housekeeping Institute participate in the Poznan Fair this summer. The proposal envisaged an exhibit of Good Housekeeping testing of consumer goods quality. The Polish Government agreed to permit such an exhibition although Good Housekeeping had nothing to sell in Poland. However, this exhibit failed to materialize in view of the last-minute unwillingness of Good Housekeeping to go through with the idea.

Free world participation in Soviet bloc trade fairs has on the whole been rather limited. At Leipzig, the largest international trade fair behind the Iron Curtain, national pavillions of free world countries have been small and unimpressive. This is not attributed to U.S. abstention from the fair (or U.S. policy on non-strategic trade) but rather reflects the preference of these countries for exhibits by private firms. Moreover, there is no evidence that these private exhibitors have felt restrained because of U.S. policy. So far as can be ascertained, normal commercial considerations, such as costs in relation to market potential, have governed participation by free world businessmen.

III. Alternative

CONFIDENTIAL

CONFIDENTIAL

-20-

### III. Alternative Courses of Action

Among the possible alternatives to the present U.S. position of qualified acquiescence in "non-strategic" trade are 1) active promotion, 2) a further stiffening of our attitude, and 3) a less qualified acquiescence. Each of these alternatives is discussed below.

#### A. Active Promotion

Active promotion of non-strategic trade has been advocated as a means of overcoming certain disadvantages which are alleged to result from our present position. It has also been suggested that certain advantages would result from such a course of action.

It has been claimed that our present attitude toward non-strategic trade has resulted in our playing so passive and, at times, negative a role on East-West trade matters in international forums, such as ECOSOC, ECE, and ECAFE, as to forfeit opportunities to assert leadership or make constructive contributions. As indicated above, our disadvantage in this regard appears to be greatest during periods when the Soviet bloc is actively promoting East-West trade, as was the case during the height of the Soviet trade offensive during 1954. However, with the revision in COCOM controls in the summer of 1954, followed by the apparent change in Soviet trade policy earlier this year, including cancelations of Soviet orders in Western Europe, the Soviets have been more on the defensive. At the same time, and as a result of the failure of the prospects of increased trade to have been realized in recent months, Western Europe appears to have become increasingly cognizant of the basic limitations of East-West trade. These developments, it is believed, have served to diminish the weakness of our position on East-West trade in international forums.

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CONFIDENTIAL

CONFIDENTIAL

-21-

It must be appreciated also that East-West trade is only one of the issues arising in international forums on which the U.S. finds itself taking negative or passive positions. Other issues on which the U.S. has become increasingly isolated include the financing of economic development, the attitude toward Soviet bloc technical assistance, and membership questions. This is not cited as a reason for maintaining our present position. Rather, it is to point out that a change in our attitude on East-West trade would not of itself necessarily improve our position generally in international economic organizations.

A second disadvantage alleged to result from our present attitude is that it engenders and keeps alive fears of our allies that the U.S. is really hopeful of a complete stoppage of East-West trade, and is thereby prejudicing their attitudes concerning strategic trade control issues. It is considered unlikely, however, that such fears, if they ever existed, continue to exist, in view of our agreement to a substantial relaxation in international trade controls. It is believed further, that the converse of this argument may have much greater validity; that is, a U.S. policy of promoting non-strategic East-West trade might very well be interpreted as a competitive drive which might give rise to pressures for further relaxations in international controls and might result in more vigorous trade promotions by other Western countries. Such a policy might, therefore, contribute to a more than marginal reliance on the bloc for essential supplies and markets, thereby making certain free world countries more vulnerable to Soviet pressures for strategic goods or other economic and political concessions. It could also lead to the granting of sizeable credits to bloc countries, similarly affording the Soviets a lever with which to extract undesirable concessions.

Other

CONFIDENTIAL



CONFIDENTIAL

-22-

Other disadvantages which it is said result from our present attitude relate to the limitations on the use of trade as a means of propaganda. As has been indicated in Part II of this paper, we have avoided up to now participation in trade fairs so as not to create erroneous inferences as to U.S. encouragement of East-West trade and future U.S. licensing of exports. We have, as a result, lost potential propaganda and personal contact opportunities. It is further argued that a more positive policy on trade would permit exploitation of whatever propaganda opportunities are inherent in emphasizing availabilities to the Soviet bloc populations of non-strategic goods, especially consumer goods, in the face of the Communist governments' inability or refusal to buy. Our ability to use trade for purposes of propaganda exploitation, however, does not so much require a policy of active promotion of non-strategic trade as a licensing policy which conforms to our stated policy of non-objection to non-strategic exports to the Soviet bloc. Similarly, although our policy of not promoting East-West trade affects our ability to encourage private American firms to participate in Iron Curtain trade fairs, it should be possible to conceive of ideas, such as the Good Housekeeping exhibit mentioned above, which avoid the implication of active promotion of trade.

Finally, it can be argued that our present policy results in the sacrificing of trade opportunities for American business. However, it is clear, as noted above, that under current conditions there is little interest in trade with the Soviet bloc on the part of the American business community in general.

As is indicated by the foregoing, there may be, as is alleged, certain disadvantages to the present U.S. attitude on non-strategic trade. These  
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CONFIDENTIAL

CONFIDENTIAL

-23-

do not, however, necessarily constitute compelling arguments for a change to a policy of active promotion. In addition, there are a number of obstacles and arguments against such a change in policy.

Trade is, of course, only one element of our relations with the Soviet bloc and our attitude on trade is necessarily colored by the general state of relations between East and West. In the absence of a marked improvement in the present international situation, a policy of active promotion of trade would be inappropriate and undesirable. Should international tensions worsen, the imposition of even more stringent controls on trade might be considered necessary. It is believed that only in the event of a general settlement of cold war issues would the active promotion of trade with the Soviet bloc be regarded as desirable.

Resulting in large measure from the state of our relations with the Soviet bloc, there have arisen over recent years a number of obstacles, legal and others, to the active promotion of trade with the Soviet bloc. The seriousness of these obstacles would depend in part upon the degree of activity in promoting trade and how the Government went about such promotions. It seems appropriate at this point, therefore, to consider some of the possible techniques of promotion.

Promotion might consist merely of public statements by prominent U.S. officials advocating increased free world exports to the Soviet bloc in the manner of statements by Winston Churchill and Harold Stassen. A prime requisite for such promotion, however, would be a liberalized U.S. licensing policy for commodities outside the control spectrum. Such a degree of promotion would probably be sufficient to permit exploitation of trade for propaganda purposes.

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CONFIDENTIAL

CONFIDENTIAL

-24-

On the other hand, if it were desired to promote trade for the sake of trade, more extreme measures would be required to facilitate trade, including possibly the negotiation of trade agreements, guidance to American businessmen and the establishment of credit facilities. While the more limited kind of promotion might be considered desirable in the present situation, the latter methods would be appropriate only in event of an over-all political settlement with the USSR.

The most extreme type of trade promotion would also encounter the more serious legal and other obstacles. Among the legal obstacles to active promotion of non-strategic trade are the Trade Agreements Extension Act of 1951, the Agricultural Trade and Development Act of 1954 (PL 480), and the Immigration and Naturalization Act of 1952.

Sections 5 and 11 of the Trade Agreements Extension Act of 1951 provide that as soon as practicable, the President shall withdraw the benefits of trade agreement concessions "to imports from the Union of Soviet Socialist Republics and to imports from any nation or area dominated or controlled by the foreign government or foreign organization controlling the World Communist movement", and shall prevent the importation of certain furs which are the product of the Soviet Union and Communist China. While these provisions relate only to Soviet bloc imports, there is, of course, a relation to exports in the sense that the ability of Soviet bloc countries to buy from the U.S. depends upon their ability to sell in the U.S. markets. More importantly, however, this law represents an expression of Congressional sentiment to the effect that trade with the Soviet bloc should not be facilitated. It would

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CONFIDENTIAL

CONFIDENTIAL

-25-

most certainly constitute a barrier to the negotiation of trade agreements and generally can be considered as an obstacle to the most active type of promotion of trade with the Soviet bloc.

Another legal obstacle to promotion of non-strategic trade with the Soviet bloc is the Agricultural Trade and Development Act of 1954. This legislation has been interpreted by the Department of Justice as barring the barter of agricultural surpluses or their sale for foreign currencies. While it does not prevent commercial sales of agricultural commodities to the Soviet bloc for dollars, the Commerce Department licensing policy further limits such sales to commodities which are not Government subsidized. The possibilities for agricultural exports to the bloc are thus severely limited. It would make little sense for the U.S. Government to advocate non-strategic exports to the bloc and at the same time severely limit agricultural exports. Thus, a policy of promoting non-strategic trade would require at a minimum a change in Commerce's licensing policy and preferably an amendment to the Agricultural Trade and Development Act of 1951 to permit barter with the bloc in agricultural commodities which are surplus in the U.S.

The active promotion of U.S. trade with the Soviet bloc would also be hampered and complicated by the Immigration and Naturalization Act of 1952. As a result of this legislation, the admission of trade representatives from Communist countries is difficult, although not impossible. Under the law, they could be admitted only as government officials, a status they are now reluctant to accept.

The remaining

CONFIDENTIAL

CONFIDENTIAL

-26-

The remaining obstacles to the active promotion of East-West trade lie in the field of public and Congressional opinion. This question, however, is to a very large degree related to the state of international tensions. So long as the policies and actions of the Communist world continue to be directed toward aggression and subversion, American public opinion will not favor trade with Communist countries on a large scale and large segments of public opinion will undoubtedly continue to insist upon stringent control measures.

B. Stiffening of U.S. Attitude

A second possible alternative to the present U.S. attitude on non-strategic trade might be a stiffening of our attitude. Such an alternative would be more theoretical than practical under present circumstances. Under the assumption that international tensions would not increase in the near future, and so long as there is the promise or even a possibility of an improvement in the international situation, it would be virtually impossible to obtain agreement on the part of other free world countries to further restrictions on East-West trade. Thus, a stiffening of the U.S. attitude at the present time would serve to reduce further only U.S. exports to the Soviet bloc. In view of present low levels of such exports, a further reduction would constitute an embargo.

In the absence of comparable action by the major trading nations of the free world it is doubtful that a stiffening of the U.S. attitude would have any adverse effect whatsoever on the countries of the Soviet bloc. On the other hand, it may be expected that such a policy on the part of the U.S. would alarm our allies and might lead

them

CONFIDENTIAL

CONFIDENTIAL

-27-

them to question the judgment of the U.S. taking such a step at a time when attempts are being made to diminish international tensions.

Accordingly, it is believed that such an alternative would be appropriate and feasible only in the event of a renewal of actual or threatened aggression by the Soviet bloc.

C. Less Qualified Acquiescence

A policy of less qualified acquiescence would represent essentially a modification of our present policy rather than a radical departure from it. It would require a relaxation of Commerce Department licensing practices respecting non-strategic trade, but would not necessarily envisage the active promotion of such trade.

Such a course of action would avoid the difficulties which result from the present contradiction between our announced policy of non-objection to non-strategic trade and our refusal to license many commodities which are of a clearly non-strategic character. In addition to permitting a larger volume of exports to the bloc, a liberalized licensing policy would of itself have the effect of promoting trade by encouraging further efforts, both on the part of the bloc to buy in the U.S. and by American firms to sell to the bloc.

A less qualified acquiescence in non-strategic exports to the bloc would permit a greater exploitation of trade issues by propaganda media. It might also serve to improve our position in international forums where the question of East-West trade arises. In short, it would avoid many of the disadvantages of our present position, without incurring the disadvantages of a policy of active promotion.

A policy

CONFIDENTIAL

CONFIDENTIAL

-28-

A policy of less qualified acquiescence would nevertheless encounter a number of problems and might involve seeking changes in existing legislation. One of the problems which may be anticipated is the question of what is strategic. The strategic significance of some commodities is in large measure dependent upon the quantity. Thus a shipment of one or two given items might not involve any problem of strategic significance, whereas a shipment of five hundred of the same items would raise a serious question in some quarters. A less extreme case is the question of commodities which, because of the supply situation both in the Soviet bloc and the free world, is not strategic but which, nevertheless, is considered strategic in the public mind for historical reasons. Commodities which might fall into this classification include iron ore and rubber. It is problems such as these which have resulted in the numerous qualifications to our general policy of non-objection to non-strategic exports.

Although it would be desirable to eliminate some of the qualifications with which we hedge our acquiescence in non-strategic East-West trade, there are at least two qualifications which it seems essential to preserve for an appropriate period of time. The first of these is necessitated by the differential in the levels and extent of multilaterally agreed controls applicable to the European Soviet bloc, on the one hand, and Communist China, on the other. The U.S. should continue to oppose other countries' exports to the European bloc of items agreed to be embargoed to Communist China when there is good evidence that such proposed exports are destined ultimately for Communist China. The second qualification is necessitated by the differential levels and extent of controls exercised by the U.S., on the one hand, and by most of the other major trading nations, on the other. This difference stems from

CONFIDENTIAL

CONFIDENTIAL

-29-

from divergent judgments as to the strategic importance of a number of commodities. The U.S. should continue to oppose exports to the bloc on an uncontrolled basis of items which the U.S. has adjudged to be strategic, but has not been able to achieve multilateral agreement to rate them as such.

The most serious exception to our general policy of acquiescence, however, concerns the export of agricultural commodities. Apart from the interpretations of PL 480 which prohibit sale for foreign currency or direct or indirect barter of government-owned agricultural commodities, it has been decided as a matter of policy not to license the export of such goods which are sold to the bloc at prices less than the government's investment in such goods. As has been indicated elsewhere in this paper, the effect of this policy and the Justice Department's interpretation of PL 480 has been to limit severely the possibilities of agricultural exports to the bloc. Unless it were determined that agricultural products should be embargoed to the bloc for strategic reasons, it is believed that a policy of non-objection to non-strategic trade should permit sales of agricultural commodities on a less restrictive basis than at present.

CONFIDENTIAL



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SUMMARY AND CONCLUSIONS

The present U.S. attitude toward non-strategic exports to the European Soviet bloc can be characterized as one of qualified acquiescence. As regards exports from the U.S., the general policy is to deny or limit the export of commodities which appear on the international control lists plus several commodities on which unilateral U.S. controls are considered to be effective, or commodities which, by their nature, might raise difficult domestic political problems if shipped to the bloc. There are certain additional restrictions relating to agricultural exports. Similarly, our attitude toward non-strategic exports by other free world countries is one of general acquiescence, subject to the qualification that such trade should not lead to an undue reliance upon the Soviet bloc.

This policy of qualified acquiescence has diverged from the policies and attitudes of most free world countries, which have adhered to a general policy of promoting an expanded East-West trade in non-strategic commodities. As a result of this divergence, and because of Soviet emphasis on expanded East-West trade, the essentially negative position of the U.S. has been highlighted and exaggerated. The failure of the U.S. to promote non-strategic trade has affected also our ability to take advantage of certain propaganda opportunities, including participation in trade fairs behind the Iron Curtain.

Among the possible alternatives to our present policy are (1) active promotion of trade in non-strategic items, (2) a stiffening of the U.S. attitude, and (3) less qualified acquiescence in the promotion of non-strategic East-West trade by other free world countries. A policy of active promotion is considered to be inappropriate in the absence of a marked

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CONFIDENTIAL

CONFIDENTIAL

-2-

improvement in international tensions, unwarranted from a commercial point of view, and subject to adverse public opinion and some legal obstacles.

A stiffening of the general U.S. attitude toward East-West trade would find little support among free world countries in the absence of a serious deterioration in world conditions, and, as a unilateral U.S. policy, would have little effect on the Soviet bloc. Accordingly, such a course is considered inadvisable at the present time.

The third alternative, less qualified acquiescence, is essentially a modification of our present position. Such a course of action would be aimed at reducing or eliminating the confusion and contradictions in our present policy of qualified acquiescence. Since the qualifications in our present policy result in large measure from public opinion factors, there may be obstacles to removal of some of these qualifications. However, a policy of acquiescence less encumbered by existing qualifications would overcome many of the disadvantages of our present policy without encountering the major disadvantages of a policy of active promotion.

CONFIDENTIAL